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(covered in cabinet)

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Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell
10 Downing Street
London SW1

22 November 1984

Dear Charles

BUDGETARY DISCIPLINE

The Economic Secretary attended the discussion last evening in Brussels between members of the ECOFIN Council and a delegation of the European Parliament about the text on budgetary discipline agreed (as a "common position") by Finance Ministers at ECOFIN on 12 November.

The Parliament delegation, as expected, strongly criticised the text, alleging that it encroached unacceptably on the rights of the Parliament and the Commission. At the minimum, they sought a specific commitment by the Council, preferably in the text of the agreement, to meaningful consultation on how budget discipline would be put into effect. They made it clear, both during the meeting and privately, that unless their wishes were met they would reject the draft 1985 budget which the Budget Council is to discuss further on 29 November.

The President of the Council, Mr Dukes (the Irish Finance Minister), stood admirably firm. While offering the prospect of discussions with the Parliament at some unspecified stage, he defended the ECOFIN text on the basis that it bound only the Council and did not as such trespass on the rights of the Parliament under the Treaty. Apart from the Italians, who suggested new procedures for consultation with the Parliament should be worked out with the Parliament before the text was formally adopted, he received general support from the majority of the Council. At a brief discussion with Ministers after the session with the Parliament, both the French and German representatives spoke against any further changes to the text, and the Economic Secretary, supporting them, urged its early formal adoption. The President accordingly concluded that he would report the flavour of the meeting with the Parliament to the Foreign Affairs Council next Monday, but that the text would be transmitted as it stands.

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The Economic Secretary believes that Mr Dukes will keep to this and senior Irish Finance Ministry Officials have assured us that their objective will be to get the text formally adopted at the Foreign Affairs Council next Monday in its present form. The Economic Secretary thinks, therefore, that the Foreign Secretary should find most of his colleagues of the same mind although the Italians may seek to delay matters further or to seek changes to the text. Although an undertaking to join with the Parliament in further discussions on budgetary discipline, including some form of dialogue before the Council establishes the reference framework, could if necessary be conceded, the Economic Secretary thinks that it would be better to resist any amendment to the text itself. Mr Dukes emphasized to the Parliamentary delegation that the Budgetary Discipline text was confined to matters specifically relating to the powers and conduct of the Council, and that procedural matters involving the Commission and the Parliament should be dealt with separately. The sequence now should be to establish the present text first, and then to consider how best any further consultation with the Parliament might be pursued.

As I have reported separately in my letter of 16 November, if the text in its present form is adopted we will be in a position to seek Parliament's approval for Supplementary Finance under the Inter Government Agreement.

I am copying this letter to Colin Budd and Anthony Cary at FCO, Ivor Llewelyn at MAFF and to Sir Robert Armstrong.

Kass ew,
A M Ellis

A M ELLIS

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CONQUEROR